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Message Text

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PAGE 01 STATE 046204

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ORIGIN FRB-02

INFO OCT-01 EUR-06 ADP-00 RSC-01 /010 R

66631
DRAFTED BY: FED. RES. N BERNARD
APPROVED BY: EUR/ NE S. GEORGE
EUR/ NE C. L. FLOYD
DISERED DISTRIBUTION NONE
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P 132230 Z MAR 73
FM SECSTATE WASHDC
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C O N F I D E N T I A L STATE 046204

FOR THE HONORABLE ARTHUR F. BURNS, CHAIRMAN, FEDERAL RESERVE BOARD

TUESDAY, MARCH 13, 1973

THE BOARD' S INDEX OF INDUSTRIAL PRODUCTION TO BE RELEASED FRIDAY WILL SHOW A RISE OF 0.8 PERCENT IN FEBRUARY TO 120.8 FROM A JANUARY LEVEL OF 119.9, WHICH WAS REVISED UPWARD BY 0.1 POINT. THE JANUARY INDEX WAS 0.6 PERCENT HIGHER THAN DECEMBER. THE FEBRUARY LEVEL IS 9.8 PERCENT ABOVE A YEAR AGO. STRENGTH DURING THE MONTH WAS WIDESPREAD BUT GAINS WERE LARGEST IN THE CONSUMER GOODS AND BUSINESS EQUIPMENT AREAS.

BOOK VALUE OF MANUFACTURING AND TRADE INVENTORIES ROSE AT A DOLS 19.5 BILLION ANNUAL RATE IN JANUARY, THE HIGHEST RATE SINCE JUNE 1966. THE JANUARY INCREASE COMPARES WITH AN AVERAGE ANNUAL RATE OF DOLS 14.9 BILLION IN THE FOURTH QUARTER. THE BULK OF THE JANUARY INCREASE WAS IN WHOLE-SALE AND RETAIL INVENTORIES. WHOLESALE PRICES WERE RISING RAPIDLY, SUGGESTING THAT MUCH OF THE BOOK VALUE INCREASE WAS IN PRICE RATHER THAN VOLUME. SALES INCREASED EVEN MORE RAPIDLY THAN STOCKS AND THE INVENTORY- SALES RATIO DECLINED FROM 1.46 TO 1.43, THE LOWEST SINCE EARLY 1966.

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IN DOMESTIC FINANCIAL MARKETS, BOND PRICES CLOSED NARROWLY MIXED. BILL RATES WERE UNDER UPWARD PRESSURE, APPARENTLY REFLECTING IN PART THE TAUTNESS IN THE FEDERAL FUNDS MARKET, AND THE 3- MONTH ISSUE CLOSED AT 6.00 PER CENT. FEDERAL FUNDS TRADED IN A 7 TO 7-3/4 PERCENT RANGE, WITH AN EFFECTIVE RATE OF 7-1/2 PERCENT ANTICIPATED. THE DESK MADE NEARLY DOLS 1.1 BILLION OF REPURCHASE AGREEMENTS AND THE FUNDS RATE FELL TO THE LOWER END OF THE INDICATED RANGE FOLLOWING THE OPERATIONS. STOCK PRICES WERE GENERALLY HIGHER IN MODERATE TRADING. DOW JONES INDUSTRIALS ROSE 6.32 POINTS TO A LEVEL OF ABOUT 976.

THE DOLLAR MOVED HIGHER TODAY FOLLOWING PRESS REPORTS OF PLANNED FREE MARKET GOLD SALES BY SOME CENTRAL BANKS, LATER DENIED BY THE BUNDESBANK, AND POSSIBLE AGREEMENT BETWEEN THE U. S. AND COMMON MARKET COUNTRIES ON FUTURE U. S. FOREIGN EXCHANGE MARKET INTERVENTION. BELGIUM AND THE NETHERLANDS BOTH ANNOUNCED THAT THEY WOULD NOT REVALUE THEIR CURRENCIES. AUSTRIA ANNOUNCED A 2.31 PERCENT REVALUATION OF THE SCHILLING RELATIVE TO SDR' S AND THE SWISS NATIONAL BANK ANNOUNCED ITS OPPOSITION TO ANY LINKING OF THE SWISS FRANC TO THE JOINT EC FLOAT.

EXCHANGE MARKETS REMAINED THIN TODAY. THE MARK WAS TRADED ABOUT 3 PERCENT ABOVE ITS FEBRUARY 14 CENTRAL RATE, THE FRENCH FRANC AND GUILDER ABOUT 2-1/4 PERCENT ABOVE THEIRS. THE SWISS FRANC FLOATED DOWN TO ABOUT 18 PERCENT ABOVE ITS SMITHSONIAN CENTRAL RATE WHILE THE JAPANESE YEN MOVED UP TO NEARLY 22 PERCENT ABOVE ITS SMITHSONIAN PARITY.

THE BANK OF CANADA MODERATED TODAY' S RISE IN THE CANADIAN DOLLAR BY PURCHASING U. S. DOLS 7-1/2 MILLION. YESTERDAY THE BANK OF CANADA SOLD U. S. DOLS 13 MILLION.

EURO- DOLLAR RATES DROPPED FURTHER TODAY. THREE- MONTH DEPOSITS WERE BID AT 8-1/8 PERCENT, DOWN 5/16 FROM YESTERDAY. GOLD WAS FIXED AT DOLS 80.00 IN LONDON THIS AFTERNOON, DOWN DOLS 2.50 FROM YESTERDAY. EARLIER IN THE DAY GOLD FELL BELOW DOLS 80.00 FOLLOWING A WIRE SERVICE STORY THAT U. S. AND GERMAN OFFICIALS HAD AGREED TO MAKE FREE MARKET GOLD SALES. GERMAN OFFICIALS DENIED THE STORY.

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EDITORIALS IN TODAY' S NEW YORK TIMES AND WALL STREET JOURNAL

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GENERALLY FAVOR THE JOINT EC FLOAT. IN SAME EDITORIAL
TIMES CALLS FOR MORE RESTRICTIVE MONETARY POLICY AND MUCH
TOUGHER INCOMES POLICY. TIMES ALSO REPORTS THAT REPRE-
SENTATIVE MILLS HOPES TO HAVE TAX REFORM BILL COMPLETED BY
JUNE 15 AND WILL NOT INTERRUPT COMMITTEE WORK ON TAXES TO
TURN TO TRADE LEGISLATION UNLESS AN INTERNATIONAL EMERGENCY
REQUIRES IT. ROGERS

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*** Current Handling Restrictions *** n/a
*** Current Classification *** CONFIDENTIAL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 13 MAR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: worrelsw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE046204
Document Source: CORE
Document Unique ID: 00
Drafter: FED. RES. N BERNARD
Enclosure: n/a
Executive Order: RR
Errors: n/a
Film Number: n/a
From: SECSTATE WASHDC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730332/aaaahzdo.tel
Line Count: 126
Locator: TEXT ON-LINE
Office: ORIGIN FR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: worrelsw
Review Comment: n/a
Review Content Flags:
Review Date: 24 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24-Jul-2001 by izenbei0>; APPROVED <22-Aug-2001 by worrelsw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> wfs 971212
Subject: N/A
TAGS: EFIN, UK, n/a
To: LONDON
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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